

Message Text

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ORIGIN EB-11

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 INT-08 SCEM-02 SS-20

NSC-10 L-03 DODE-00 PA-04 USIA-15 PRS-01 STR-08 /159 R

DRAFTED BY EB/ISM:WPOLIK:LMP

APPROVED BY EB/ICD:JJINGERSOLL

EB/ISM:DFMEYERS

EA/J:THUBBARD

COMMERCE:JOWENS

STR:HPROPPS

----- 043292

R 201824Z NOV 73

FM SECSTATE WASHDC

TO AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS:

SUBJECT: US FERROUS SCRAP EXPORTS: USG-GOJ CONSULTATIONS

REF : TOKYO 14588

1. KAZUO KAMIYA, DIRECTOR MITI IRON AND STEEL ADMINISTRATION DIVISION, ACCOMPANIED BY JAPANESE EMBOFFS HARADA AND KINOSHITA, MET NOV. 14, 15 AND 16 WITH STATE-COMMERCE-STR TO DISCUSS JAPAN'S CY 1974 FERROUS SCRAP REQUIREMENTS AND US 1974 SCRAP EXPORT PROGRAM. HIGHLIGHTS FOLLOW,

2. KAMIYA REITERATED REQUEST MADE EARLIER BY HARADA AND KINOSHITA TO DEPUTY ASST. SECY. COMMERCE COOK THAT US MEET JAPAN'S CY 1974 SCRAP REQUIREMENT OF 6 MILLION SHORT TONS (MST). KAMIYA ALSO STATED THAT JAPANESE SCRAP NEEDS WOULD BE GREATER DURING FIRST HALF 1974 (VS. 2ND HALF), AND THAT
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MOST URGENT NEED WAS FOR DELIVERY IN JAPAN OF 500,000 SHORT TONS DURING JANUARY 1974. LATTER FIGURE WOULD INCLUDE APPROX 215,000 TONS UNDER JAPANESE UNDERTAKING TO LIMIT 1973 IMPORTS TO 5 MST THAT HAVE NOT YET BEEN LICENSED FOR

SHIPMENT. (COOK EARLIER HAD INFORMED JAPANESE THAT USG WILL LICENSE THIS 215,000 TONS FOR EXPORT).

3. KAMIYA NOTED THAT JAPANESE SCRAP STOCKS OF 3.43 MST AT BEGINNING OF CY 1973 (DOWN FROM 5.04 MST AT BEGINNING OF CY 1972) EXPECTED TO FALL TO 2.45 MST BY BEGINNING OF CY 1974. THIS WAS BELOW THE 3 MST STOCK LEVEL JAPANESE SCRAP USERS CONSIDER MINIMUM, AND WILL MEAN SHORTAGES AND LOWERED PRODUCTION FOR SOME USERS. JAPANESE HOPE TO USE 650,000 TONS OF ADDITIONAL 1 MST (5 MST IN 1973 TO 6 MST IN 1974) TO REBUILD DEPLETED STOCKS TO 3.1 MST BY BEGINNING OF CY 1975.

4. US REPS EXPRESSED UNDERSTANDING OF JAPANESE NEEDS, BUT NOTED THAT EXTREMELY HEAVY US DEMAND AND RECORD FOREIGN DEMAND (18 MST IN LATTER CASE, INCLUDING 6 MST JAPANESE REQUIREMENT) INDICATED THAT SOME CUTBACK FROM THIS YEAR'S RECORD EXPORT LEVEL (WHICH WILL PROBABLY REACH 12 MST) WILL PROBABLY BE NECESSARY.

5. ON MECHANICS OF ALLOCATING WHATEVER OVERALL QUOTA LEVEL USG DECIDES ON, US REPS STATED THIS WOULD PROBABLY BE DONE ON HISTORIC BASIS, AND TALKED IN TERMS OF 3-YEARS IMMEDIATELY PRECEDING EXPORT CONTROLS AS BASE PERIOD, NOTING THAT IN CASES OF SHORT SUPPLY CONTROLS COMMERCE HAD NEVER ADOPTED BASE PERIOD OF LESS THAN ONE OR MORE THAN THREE YEARS. JAPANESE TALKED IN TERMS OF TEN YEAR BASE PERIOD, WHICH THEY SAID SHOWED THEY WOULD BE ENTITLED TO A 48 PERCENT SHARE OF OVERALL ALLOCATION. (FYI. AVERAGE JAPANESE SHARE OF US SCRAP EXPORTS DURING THREE US FY'S ENDING JUNE 30, 1973 COMES TO ABOUT 38 PERCENT. END FYI).

6. DURING DISCUSSIONS, JAPANESE MADE "FORMAL" REQUEST FOR CONTINUATION IN 1974 OF SAME "LICENSING METHODS" FOR JAPAN THAT APPLIED IN 1973, REGARDLESS OF WHAT IS DONE BY OR FOR OTHER COUNTRIES. US REPS REPLIED THAT IN 1973 LIMITED OFFICIAL USE
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WE FACED PROBLEM OF EXISTING CONTRACTS, SOME OF WHICH WERE DEFERRED, WHILE IN 1974 MANY IF NOT MOST EXPORT CONTRACTS WILL BE NEW ONES. TO HAVE GOJ ISSUE IMPORT LICENSES FOR THESE NEW CONTRACTS TO JAPANESE IMPORTERS WOULD GIVE LATTER ADVANTAGE OF BEING ABLE TO SHOP FOR LOWEST PRICED US SUPPLIER; CONVERSELY, USG LICENSING OF US EXPORTERS WOULD ALLOW LATTER TO SELL TO HIGHEST FOREIGN BIDDERS. EACH METHOD OFFERED ONE-SIDED ADVANTAGES. JAPANESE STRESSED THAT THEIR LICENSING OF IMPORTERS WOULD HOLD DOWN THE PRICE OF SCRAP AND THEREBY RESULT IN OVERALL BENEFITS TO BOTH US AND JAPANESE ECONOMIES. US REPS MADE NO COMMITMENTS ON THIS JAPANESE REQUEST, BUT, AS NOTED ABOVE,

POINTED OUT POSSIBLE DIFFICULTIES.

7. DURING NOV. 16 MEETING JAPANESE STATED THEY WOULD BE WILLING TO "ACCEPT SAME TREATMENT AS IN 1973" FOR 1974, I.E., 5 MST FOR 1974, BUT INDICATED THAT THIS WAS MINIMUM TONNAGE THEY COULD AGREE TO.

8. DURING ALL THREE MEETINGS JAPANESE ASKED FOR SPECIAL CONSIDERATION TO BE GIVEN JAPAN IN VIEW OF GOJ'S COOPERATIVE ACTION LAST JULY IN LIMITING CY 1973 IMPORTS OF US SCRAP TO 5 MST AND DEFERRING 2 MST IN CONTRACTS TO 1974 DELIVERY. US REPS AGAIN EXPRESSED APPRECIATION FOR JAPAN'S COOPERATION IN THIS DIFFICULT MATTER, BUT CAUTIONED JAPANESE AGAINST EXPECTING SPECIAL TREATMENT.

9. DURING NOV. 16 MEETING, JAPANESE BECAME HEATED, LARGELY WE BELIEVE AS RESULT OF THEIR MISUNDERSTANDING OF TREATMENT TO BE GIVEN 2 MST IN DEFERRED CONTRACTS. WHEN US REPS NOTED THAT SOME OF THESE CONTRACTS MAY HAVE BEEN CANCELLED, JAPANESE POINTED OUT IN AGITATION THAT GOJ HAD "PERSUADED" ITS IMPORTERS TO DEFER RATHER THAN CANCEL CONTRACTS, AND ASKED WHY USG UNWILLING DO LIKEWISE WITH ITS EXPORTERS. US REPS REPLIED THAT USG HAS NO LEGAL WAY OF FORCING EXPORTER TO GO THROUGH WITH CONTRACT. IF EXPORTER CANCELS OR REFUSES COMPLY WITH CONTRACT (E.G., BECAUSE SCRAP PRICES NOW HIGHER THAN AT TIME OF ORIGINAL NEGOTIATION OF CONTRACTS), JAPANESE IMPORTER HAS LEGAL RECOURSE AGAINST EXPORTER. US REPS ALSO NOTED THAT OUTSTANDING CONTRACTS IN ALMOST ALL CASES REPRESENT LONG-LIMITED OFFICIAL USE
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STANDING BUSINESS RELATIONSHIPS BETWEEN US EXPORTERS AND JAPANESE IMPORTERS WHO EXPECT TO CONTINUE DOING BUSINESS TOGETHER IN FUTURE, AND THAT IN THE EVENT OF ANY DIFFICULTIES OVER OUTSTANDING CONTRACTS BOTH PARTIES WOULD RECOGNIZE LONG-TERM BENEFITS OF COMPROMISING THEIR DIFFERENCES. THIS APPEARED TO CALM JAPANESE, WHO INDICATED THAT JAPANESE BUYERS WILLING RE-NEGOTIATE CONTRACTS.

10. ALSO ON SUBJECT OF DEFERRED 2 MST, US REPS POINTED

OUT THAT IF ANY CONTRACTS ARE IN FACT CANCELLED, USG WOULD LICENSE EQUIVALENT AMOUNT FOR EXPORT TO JAPAN IN 1974. THUS, JAPAN WOULD BE GUARANTEED MINIMUM OF 2 MST IN 1974, REGARDLESS OF OVERALL QUOTA LEVELS. JAPANESE MAY HAVE CHOSEN TO INTERPRET THIS AS HINT THAT 2 MST MIGHT BE ALL THAT JAPAN CAN EXPECT (WHICH IS NOT SO), AND THEY THEN ASKED THAT 2 MST DEFERRED AMOUNT BE TREATED AS EX-QUOTA IF US CUTBACKS WERE SUCH THAT JAPAN WOULD RECEIVE LESS THAN 5 MST IN 1974. US REPS SAID USG WOULD CONSIDER REQUEST, BUT WERE UNABLE OFFER ANY ENCOURAGEMENT

WHATEVER FOR EX-QUOTA TREATMENT.

11. THROUGHOUT DISCUSSIONS US REPS EMPHASIZED THAT WHILE
USG WOULD SERIOUSLY CONSIDER DATA PRESENTED BY AND REQUESTS
MADE BY GOJ, ULTIMATE DECISION ON QUOTA LEVEL AND METHOD
OF ALLOCATION WOULD BE MADE BY USG. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 11 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE228688
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ISM:WPOLIK:LMP
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731167/abqcejxn.tel
Line Count: 171
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: REF : TOKYO 14588
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 15 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Nov-2001 by willialc>; APPROVED <07 MAR 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US FERROUS SCRAP EXPORTS: USG-GOJ CONSULTATIONS
TAGS: EMIN, JA
To: TOKYO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005